

MEMORANDUM OF UNDERSTANDING

SUBJECT: Army & Air Force Exchange Service (AAFES) and Army Residential Community Initiative (RCI) Project Coordination

1. Purpose: AAFES and RCI share a common vision of supporting and improving the quality of life for Soldiers and their Families. Opportunities exist to provide enhanced services to these military families by coordinating and integrating AAFES' service delivery with the planning and execution of Army RCI projects. Providing this more effective coordination requires the alignment of interests between AAFES, RCI, Army installations and the RCI developer partners at each installation. The purpose of this memorandum of understanding is to help foster more effective coordination between AAFES and RCI as we work toward our mutual objective of supporting quality communities for military families. This MOU is prepared based on authorities provided in 10 USC 2871-2883, DoDD 1330.9 and DoDI 1330.21.

2. Coordination Requirements: All AAFES and RCI interrelated projects should be fully reviewed and coordinated with AAFES, RCI, the specific Army installation and the installation's RCI developer partner. Attached subject-specific information papers (#1,#2,#3) provides more detailed information and guidance concerning the relationship between RCI and AAFES. These information papers will help facilitate coordination at the RCI project and installation level where the plans are created and the agreements finalized after the appropriate reviews and approvals.

3. Effective Period:

a. The provisions of this MOU will commence on the date of mutual acceptance as indicated by the latest signature date contained in this MOU and will remain in effect indefinitely.

b. This MOU may be terminated in whole or in part upon 90 days' notice, in writing, to the other party. This MOU may be modified by written amendment upon mutual agreement by both parties.

4. Roles and Responsibilities:

a. The Army policy proponent for AAFES is the ASA(M&RA) and the Army policy proponent for RCI is the ASA(I&E). AAFES and RCI will coordinate necessary Army policy issues with their respective policy proponents.

b. AAFES has primacy in providing retail, food and vending services to military service members and their families at uniformly low prices where ever they are stationed on Army installations around the world. AAFES also offers telecommunications, landscaping and quarters cleaning services as a service at some installations. Approximately 65% of AAFES' earnings flow to Morale, Welfare and Recreation programs, with the other 35% retained for AAFES' capital programs.

c. The Department of the Army (DA) RCI Office oversees the planning, development and management of quality family housing communities on Army installations. The focus of this effort is the creation of 50-year partnerships between Army installations and developer partners.

d. Army installations' leadership and staff are responsible for coordinating facility master plans, fostering and maintaining quality communities, and participating in the planning and implementation of RCI and AAFES projects.

e. RCI developer partners help to create an installation-specific Community Development and Management Plan (CDMP) for each RCI project in conjunction with the Army installation staff and in accordance with guidance from the DA RCI Office. They serve as the managing members for the 50-year RCI projects, focused on providing quality housing communities for military families.

f. Coordinated projects between RCI and AAFES will require the approval of each of the four main participants described in the previous paragraphs. Representatives from AAFES, DA RCI, Army Installation leadership and RCI developer partners will need to fully evaluate each project with the shared goal of providing enhanced value to military family residents.

g. AAFES is committed to negotiate agreements with Project Partners that are both beneficial and fair to all concerned parties. As part of the planning process for ancillary support businesses and services, DA RCI representatives, Army installation representatives and the installation's RCI developer partner will coordinate with AAFES to discuss the potential for AAFES participation. Requests for AAFES operation of proposed ancillary businesses and services or waivers that propose that the RCI developer partner operate ancillary businesses and services will be submitted in writing to; Commander, AAFES (Attn: RE-S) 3911 South Walton Walker Blvd, Dallas TX 75236.

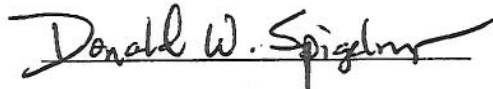
These requests or requests for waiver will include details about the ancillary support business or service and specify the proposed location. These requests will be reviewed on a case-by-case basis and AAFES will provide one of the following responses:

- (1) AAFES elects to provide the business or service in question, or
- (2) AAFES elects not to provide the business or service and due to the impact on existing operations AAFES elects not to waive primacy, or
- (3) AAFES elects to waive primacy and identifies possible requirements that the developer must meet in order to pursue the business or service in question.

Within AAFES, this Authority to waive primacy lies solely with the Commander AAFES and may not be delegated.

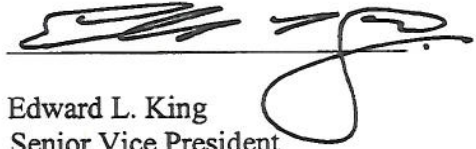
5. Conclusion: AAFES and DA RCI share a common vision and have many opportunities to integrate planning and service delivery for military families in quality family communities. This memorandum of understanding will serve to align the interests of AAFES, DA RCI, Army installations and developer partners to achieve mutual benefits and to ultimately provide an improved quality of life for our extremely important military families.

6. Disputes: Disputes under this MOU will be settled at the lowest level possible before being referred as provided in DoDI 4000.19.



Donald W. Spigelmyer
Director
Residential Communities Initiative

Date: June 17, 2005



Edward L. King
Senior Vice President
Real Estate Directorate

Date: 12/6/05

RCI-AAFES INFORMATION PAPER #1

SUBJECT: AAFES RETAIL, FOOD, VENDING AND TELECOMMUNICATIONS
SERVICES APPLICABLE TO RCI PROJECTS

The purpose of this information paper is to provide subject-specific details to supplement the AAFES-RCI Memorandum of Understanding. This particular information paper provides categories and specific retail and service offerings from AAFES.

1) Traditional Convenience Store, including but not limited to:

- Gasoline
- Automatic Car Wash

2) Current Branded Fast Food (each location subject to franchise approval):

- | | |
|--------------------------|------------------------------|
| - A & W | - Popeye's Chicken |
| - Baskin Robins | - Taco Bell |
| - Big Vinny's | - Taco John |
| - Blimpie | - Anthony's Pizza |
| - Burger King | - Robin Hood Deli |
| - Capt D's | - Reel Time Express/Theaters |
| - Charley's Grilled Subs | - Specialty Express Products |
| - Church's Chicken | - American Eatery |
| - Colter's Texas BBQ | - Sweet Reflections |
| - Domino's Pizza | - Extreme Franks |
| - Einstein Bros. Bagels | - Snack Avenue |
| - Godfather's Pizza | - Subway |
| - Greek Odyssey Café | - Starbucks Coffee |
| - Manchu Wok | - Seattle's Best Coffee |
| - Sunset Strips | - Mainstreet Espresso |
| - Pizza Hut | |

3) Traditional Services including but not limited to:

- | | |
|-------------------------------------|--------------------------------|
| - Auto Club | - Beauty Shop |
| - Auto Window Tinting | - Spa |
| - Auto Detailing | - Nail Salon |
| - Auto Windshield – Rockchip Repair | - Massage Therapy |
| - Auto Stereo / Alarm Installation | - Laundry / Dry Cleaning |
| - New Car Sales | - Wash & Fold (Bundle Service) |
| - Motorcycle Sales | - Alterations |
| - Name Brand Auto Parts | - Embroidery / Monogramming |
| - Taxi | - Shoe Repair |
| - Car Rental | - Shoe Shine |
| - Trailer or Truck Rental | - Electronic Repair |
| - Car Wash | - Watch Repair |
| - Barber Shop | - Audiology |
| - Barber & Beauty (Haircare Center) | - Equipment & TV Rental |
| | - Optical / Vision Center |

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- Dentistry
- Portrait Studio
- Hospital Baby Photos
- Custom Picture Framing
- Roving Portrait Services
- Unit Photography / Year Book
- Flower Shop
- Mass Merchandise Flower Shop
- Specialty Shop
- Candy Shop
- Gifts Shop
- Encyclopedia Sales
- Pet Grooming
- Income Tax Preparation
- Commodity Concession Roving
- Commodity Concession Permanent
- Carnival Services
- Nutrition Center
- Merchant Rep On-installation
- Mini Storage / Warehouse with
RV parking (manned and self-
service)
- Mail Center (UPS Store)

4) Vending Products and Services including, but not limited to:

- Hostess Products
- Soft Drinks
- Isotonic (Sports) Drinks
- Food Vending Ice Cream / Chilled
- Candy Vending
- Stamp Vending
- Photo Vending
- Coin Copy Machines
- Water Vending – Gallon
- Newspaper Vending
- Locker/Vending Rental
- Coin Operated Cash Wash
- Launderette / Laundry mat (extra large capacity – multiple or individual units)
- Amusement / Pinball / Video / Jukebox
- Bulk / Novelties Vending
- Reverse Vending – Recycling

5) Other Service Offerings (These offerings in no way detract from the RCI project's ability to select a service provider that provides best services for a particular installation. See RCI-AAFES Information Paper #2, Sections c and d):

- Telecommunications:
 - Telecommunications Service Center (on-site)
 - Local, long distance phone services
 - VoIP
 - High speed Internet and WiFi services
 - Pay telephones
 - Hospitality, barracks and dorm telecommunication services
 - Utility management
- Quarters Cleaning
- Lawn Maintenance and Mowing

RCI-AAFES INFORMATION PAPER #2

SUBJECT: AAFES-RCI OPPORTUNITIES

The purpose of this information paper is to provide subject-specific details to supplement the AAFES-RCI Memorandum of Understanding. This particular information paper provides descriptions of AAFES-RCI opportunities concerning mutually beneficial services and projects. These services and projects help illuminate the importance of mutual cooperation and coordination between AAFES and DA RCI on projects that offer the potential to benefit military family housing communities and to potentially make profits for MWR and AAFES.

- a. Areas for potential efficiencies and reduction of RCI operating costs:
 - 1) AAFES loan of furnishings for RCI model homes.
 - 2) AAFES vending services established at RCI construction sites.
 - 3) RCI construction sites included in schedules for AAFES mobile food service.
 - 4) RCI employee/subcontractors patronage of AAFES' food operations.
 - 5) RCI employee use of AAFES' convenience facilities to purchase for immediate consumption (fountain/heat & eat), per AR 60-20, paragraph 2-9.c.(1), excluding tobacco and alcohol.
- b. The following opportunities are under review by the Department of Defense for approval:
 - 1) RCI project purchase of fuel for RCI vehicles from AAFES' service stations.
 - 2) RCI project purchase of operational supplies from AAFES' retail or bulk purchasing.
- c. Telecommunications as an AAFES service offering:
 - 1) AAFES, based on RCI project specifications, offers telecommunications contract development, solicitation, performance management and marketing. This offer in no way detracts from the RCI project's ability to select a service provider that provides best services for a particular installation.
 - 2) The potential also exists to offset costs of telecommunications infrastructure. This infrastructure may be customized based on the project requirements for each residential community and may also be provided at no cost to the project.
- d. Quarters cleaning and landscaping as service offerings: AAFES offers these

services to RCI projects, but this service offering does not detract from the developer partners' discretion in the selection of service providers for quarters cleaning and landscaping services.

e. AAFES concepts for providing service delivery at Army installations:

- 1) Shopping Center Concept - Provides the main destination-shopping environment for the installation and typically includes the main Post Exchange (PX) as the anchor. This anchor store is supported by a variety of retail, food and service businesses located near the commissary. This shopping center is not exclusive to family communities.
- 2) Installation Entrance and Exit Convenience Store Concept: Strategically located at high traffic arteries with the intent to generate high volume convenience sales, not exclusive to family communities.
- 3) RCI-AAFES Concepts:
 - i) RCI-AAFES Town Center or Town Square Concept: Typically used in high-density residential areas integrated with apartments or townhouses. Concept calls for a variety of small businesses to operate on the first floor or street level with living quarters in the upper levels. Businesses depend largely on foot-traffic from surrounding residents. This concept does not support gasoline sales due to limited space and the proximity to housing.
 - ii) RCI-AAFES Community and Neighborhood Center Concept: Typically a single building located near the main entrance or center of a residential community. This facility can provide a variety of functions including the community housing and maintenance office, a community meeting room, a small kitchen, a small fitness center, a half-court gymnasium, and a swimming pool with showers and lockers. This concept is best suited for small to medium neighborhoods where AAFES' convenience businesses can be included as part of the community or neighborhood building.
 - iii) RCI-AAFES Convenience Center Concept: Typically a free-standing convenience store or strip-mall at the main entrance of a residential community that provides a variety of retail, food and services for those living in or passing through the immediate area. Best suited for medium to large neighborhoods and high traffic areas when not practical to include AAFES convenience businesses as part of the actual community or neighborhood center.
- 4) To help support the planning and execution of the concepts above, AAFES will complete a sales and sizing analysis for each RCI project at no cost to the

RCI project. This analysis will help determine the potential for each project, including a forecasted Return on Investment (ROI) using a traditional finish-out process. AAFES will share this analysis and information with the RCI project. The RCI project will also share its estimated/actual construction or renovation cost information for the particular building or space. Opportunities to implement the concepts above fall in the categories as described below.

- i) Options to plan and construct stand-alone retail services facilities as described in paragraph 3. i). above.
- ii) Options to plan and construct integrated retail space in RCI facilities as described above in paragraphs 3. ii). and 3. iii). Options for the AAFES lease of retail space are permitted by 10 USC Section 2835, paragraph (h) that allows an RCI project to construct "ancillary facilities" and DODI 4105.71, paragraph 6.1.5, dated February 26, 2001 that permits AAFES to lease from RCI developers. This represents a potential Win-Win-Win scenario for the military community, the RCI project and AAFES.
- iii) The AAFES commander has authority to approve leases with total expenses of less than \$200,000 per year. Leases of \$200,000 annually or greater require AAFES Board of Directors (BoD) approval that typically requires 30-60 days and then approval by the Secretary of the Army that typically requires another 30-90 days. Leases that exceed \$500,000 per year require AAFES BoD approval, approval by the Secretary of the Army, again typically 30-90 days, and then approval by the Assistant Secretary of Defense for Force Management Policy that typically requires 30-90 days.

RCI-AAFES INFORMATION PAPER #3

SUBJECT: AAFES DIVIDENDS AND RETURN ON INVESTMENT GOAL

The purpose of this information paper is to provide subject-specific details to supplement the AAFES-RCI Memorandum of Understanding. This particular information paper provides an overview of the AAFES use of dividends to support Morale, Welfare and Recreation (MWR) activities and to support the AAFES capital program. There are three parts of AAFES earnings that contribute to the overall dividend paid to MWR activities of the Army, Air Force, Marine Corps and Navy: regular earnings, alcoholic beverage direct operating revenue less Capital Program (CP) reduction, and 90% of telephone income.

1. **Regular Dividends (Core):** Total AAFES net earnings less components not subject to core distribution including Class Six and telephone dividends. 50% of this amount is distributed to the Army and Air Force based on an agreement between them and 50% is retained for the AAFES capital program.
2. **Alcoholic Beverage Dividends (Class Six):** 100% of direct operating revenue less a contribution to the AAFES Capital Program (currently 2.22% of sales). The split to the services is based upon the Service alignment at the installation that produces the income. Class Six earnings are deducted from AAFES net earnings when determining the regular, core dividends.
3. **Telecommunication Dividends:** 80% of telecommunication income is paid to the MWR services monthly as a special dividend. The split to the Army and Air Force is based upon the Service alignment at the installation that produces the income. The 80% telecommunication dividend is deducted from the AAFES net earnings when determining the regular, core dividend. The other 20% of telecommunication income is used in calculating the regular, core dividend. This 20% is split 50%/50% between the Services and AAFES as with the regular core dividend. The result is a total of 90% of telecommunication income is paid to the MWR services.

AAFES Return on Investment Goal:

1. AAFES conducts sales and sizing analysis and maps service areas to provide an assortment of retail, food, services, vending and telecommunications support for each installation, community or neighborhood.
2. The AAFES investment goal is to show a minimum threshold for Return on Investment (ROI) of 9.6%, operated for the quality of life benefit and convenience of the military community.
3. Projects with an ROI above 9.6% help offset other service (no- or low-profit) projects and to generate dividends for MWR and the AAFES capital program. AAFES clearly is not able to generate ROI above 9.6% for service projects provided to Army installations in remote areas, including AAFES operations in Iraq and Afghanistan and during contingency operations.